PROFIT SHARING AND UNION STRATEGY

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Mar. 12
1958

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THE DEMAND of the United Automobile Workers that the country's manufacturers of motor vehicles share profits with their employees, and with their customers, strikes a new note in employer-union relations. Profit sharing is not a stranger on the American business scene; such arrangements were first introduced more than a century ago, and thousands of profit-sharing plans are in operation today. The unusual thing about the U.A.W. proposal is that a labor union is making it.

Profit sharing up to now has rarely been a subject of collective bargaining. Arrangements for splitting profits with workers have been instituted by employers and continued or discontinued at their pleasure. Until U.A.W. President Walter P. Reuther outlined the union's 1958 bargaining proposals, no labor leader of stature had accorded profit sharing much favor. On the contrary, many labor leaders had roundly denounced it.

Issues Raised by Novel Demand of Auto Union

With the current business recession hitting the automobile industry particularly hard, it is a question whether the union will make a major effort to obtain acceptance of its profit-sharing plan in this spring's contract negotiations.[1] But the course has been charted. If the demand is not pressed with vigor this year, the union undoubtedly will come back to it at the first favorable opportunity.

Whenever labor and management really lock horns on profit sharing, a Pandora's box of underlying issues will be opened for debate: What is the worker's rightful share of wealth brought into being by production? To what extent should his remuneration be geared to profit fluctuations? Is it any business of the worker how much the boss gets? How far may labor unions go in appropriating preroga-

[1] U.A.W. negotiations are scheduled to begin with General Motors on Mar. 25, with Ford on Mar. 31. The present contract with General Motors runs out on May 29, that with Ford on June 1.

tives that once belonged exclusively to management, such as setting of wages and prices and distribution of profits? What effect would adoption of profit sharing by a major industry have on the economy as a whole?

Critics who assail unions as "labor monopolies," intent upon extracting benefits for the few at the expense of the many, tend to regard the U.A.W.'s profit-sharing proposal as the last straw in union arrogance. They think this is the point at which the automobile industry should stand fast and fight back. Yet many conservative businessmen look on profit sharing as a bulwark against excessive union power because it makes "every man a capitalist," presumably prepared to restrain labor leaders from pushing demands that would financially cripple profit-making enterprises.

Reuther Proposal for Three-Way Profit Split

The collective bargaining program of the U.A.W., announced on Jan. 13, took the automobile industry by surprise. Accustomed to introduction of at least one novel demand by the union in each contract year, the auto manufacturers had expected that this year's innovation would be a call for a shorter work-week. Arguments had been marshaled to meet such a challenge. Instead, the union dropped its previously announced short-week goal [2] and substituted the demand for sharing of company profits with workers and car purchasers. Reuther explained that the change was made "in recognition of the critical world situation as dramatized by the Soviet sputniks and of the need to place the major emphasis upon expanding purchasing power . . . [to meet] the serious problem of unemployment and short work-weeks [at reduced pay]."

The union's program, drawn up by its executive board and endorsed by a special convention on Jan. 23, will form the basis of specific demands to be submitted in negotiations with the Big Three automobile companies—General Motors, Ford, and Chrysler—and the smaller American Motors and Studebaker-Packard. Together they employ nearly one-half of U.A.W.'s 1.3 million members. The program may also govern to some extent the demands made this year in negotiating new U.A.W. contracts with aircraft, automobile parts, and farm implement producers.

[2] A U.A.W. convention in April 1957 had voted to "make the shorter work-week with increased take-home pay . . . the next major collective bargaining objective."

As is customary, the pre-bargaining program calls for better terms in all existing forms of worker remuneration—higher wages, more unemployment compensation, and larger pension and health insurance benefits. These items are described as parts of "a minimum basic economic demand, which will be common for all employers." In addition, it is proposed that "supplementary economic demands" be made on "those corporations or companies in a more favored economic position." Concerns in the latter group will be asked to share a certain percentage of their profits with employees.

The formula suggested by the union describes profits over and above a return of 10 per cent on net capital before taxes as "excess profits" and calls for distribution of one-half of the excess to stockholders and executives; one-fourth to wage and salary workers; and one-fourth as a year-end rebate to purchasers of company products. The form in which employees would receive their share of profits is left to the "democratic decision" of each group of workers. It might be in the form of supplementary wages, bonuses, increased insurance or pension benefits, additional unemployment compensation, additional holidays, or even a shortening of the work-week without loss of pay. The proposal that a share of profits go also to salaried workers and to customers is put forth as a suggestion rather than a demand, because the union can bargain only on behalf of its own members.

The U.A.W. estimates that if the profit-sharing plan had been in effect at General Motors during 1956, each wage earner would have received a year-end profit bonus of $550, and that each buyer of a new G.M. car that year would have got a rebate of $56. The same plan would have given each Ford worker an estimated $350 to $380 out of 1956 profits, and each Ford customer a $30 rebate.

Prospect of Stiff Resistance by Auto Makers

Initial comments on the U.A.W. program promised a long and acrimonious struggle if the issue is pressed at the bargaining table. The feud-like character of the controversy deepened with the opening late in January of a Senate inquiry into automobile pricing methods. The Antitrust and Monopoly Subcommittee, headed by Sen. Estes Kefauver (D-Tenn.), had intended to have Reuther and the heads of the major automobile companies appear to-

gether. Reuther welcomed an opportunity to exchange views with industry leaders in such a forum, but the latter objected that a congressional committee room was not the place to engage in collective bargaining. Although the plan for a joint appearance was scrapped, the issues raised by the U.A.W. proposal were aired at the hearings and the testimony indicated the lines of the oncoming struggle.

The strongly unfavorable reaction of the automobile manufacturers to the profit-sharing proposal reinforced the belief that this is the point at which the industry will make a last-ditch stand against further concessions. Although the automobile companies have acceded to many once-novel demands, such as health insurance, cost-of-living pay adjustments, and (in 1955) supplementary unemployment benefits, those concessions were granted in years when economic conditions buttressed the bargaining position of labor unions.

The current rise in unemployment, especially among automobile workers, the decline in automobile sales, and the existence of a large inventory of new cars make it probable that the companies would have less to lose from a prolonged strike this year than in any other contract year of the past decade. In mid-February 5.2 million workers were unemployed in the United States—an increase of 680,000 since mid-January and the largest jobless total in 16 years. The number of unemployed last month was equivalent to 6.7 per cent of the civilian labor force—a higher ratio than in either of the two preceding postwar recessions.[3] The U.A.W. asserted in the middle of February that General Motors had furloughed 90,000 workers since last autumn, although industry estimated the number at between 27,000 and 28,000.

Reuther has accused the automobile makers of overproducing in order to have large enough inventories on hand to weather a strike shutdown. The companies may rely on a weakening of strike support among union members who have been unemployed or working short weeks. The union has authorized an assessment of $5 a month on each member for three months in order to raise the strike fund from about $25 million to twice that amount. Strike benefits

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[3] The ratio rose above 6 per cent for several months during the 1949-50 recession and again in 1953-54. Average unemployment of 5.6 million workers in the year 1941 amounted to 10 per cent of the labor force. The ratio had touched 25 per cent at the bottom of the Great Depression.

would give a family a maxmium of $22 a week for the first seven weeks of a strike and $30 a week thereafter. A strike against General Motors, affecting 350,000 U.A.W. members, would cost the union more than $41 million in strike benefits in seven weeks.

Attacks on Reuther and the Reuther Proposal

In a letter to union locals outlining the union's bargaining program, Reuther said the profit-sharing feature represented "an unusual approach to collective bargaining in our industry but these are unusual times." He described the plan as "an economically sound, a morally right and socially responsible approach to collective bargaining in 1958."

Industry spokesmen immediately assailed this description. To them the profit-sharing proposal appeared to be a clear bid for union power and unjustifiably high worker compensation. Harlow H. Curtice, General Motors president, called it a "radical scheme . . . foreign to the concepts of the American free enterprise system." Ernest R. Breech, board chairman of the Ford Motor Co., said it struck "at the very roots of the economic system that has made and kept America strong." L. L. Colbert, president of Chrysler Corporation, thought it indicated that Reuther aimed to "increase still further the already dangerous degree of monopoly power he possesses."

The board chairman of U.S. Steel, Roger M. Blough, joined the attack in a speech on Jan. 31 before the Automotive Parts Manufacturers Association in Detroit. He saw the Reuther proposal as part of a propaganda offensive against the profit system. He said it was not a profit-sharing plan but a "profit-exhaustion" plan which would be "disastrous for . . . employees and employers alike."

Much of the criticism appeared to be directed against Reuther personally. Curtice told the Kefauver subcommittee on Jan. 30 that he found it difficult to reconcile the proposal with Reuther's "professed concern over inflation" and that he suspected it was just a "public relations job." Vice President Theodore O. Yntema of Ford said: "While Mr. Reuther is pointing to pie in the sky with one hand, his other hand is taking money out of the consumer's pocket." Reuther, meanwhile, accused the automobile producers of "greed" and said they were making labor a "scapegoat" for inflationary pricing of cars.

Profit Sharing in American Industry

PROFIT SHARING in the automobile industry has found one champion among employers. Lucas Miel, president of a steel treating company with 300 employees and former chairman of the Council of Profit Sharing Industries, urged automobile manufacturers to give serious consideration to the union's plan. Miel, whose company has practiced profit sharing since the early 1940s, asserted on Jan. 16 that "Every employee in the nation should have a profit relationship with his employer in addition to a wage relationship."

Miel spoke for a small band of American employers whose satisfactory experience with profit sharing has made them ardent advocates of its extension throughout business generally. They believe that it benefits employer and employee alike and prevents labor strife. In their opinion, profit sharing represents a step toward a more reasonable economic order in which boss and worker will have common concern for the welfare of the company. An increase in profit-sharing plans since World War II has fortified their belief that this is the way of the future. But despite gains made by profit sharing, it has not yet caught on in American industry to a significant extent; the vast majority of the nation's business and labor leaders still regard it with suspicion.

Extent of Profit Sharing of Different Types

At least 15,000 American concerns are believed to share profits in some way. However, many of the plans are of limited scope or do not otherwise meet the modern definition of profit sharing as "a procedure under which an employer pays or makes available to all regular employees, subject to reasonable eligibility rules, in addition to prevailing rates of pay, special current or deferred sums based on the profits of the business." [4]

Nearly 1,000 enterprises with a combined total of 850,000 employees are members of the Council of Profit Sharing Industries. The council, organized nine years ago to mobilize support for profit sharing, estimates that 1,500

[4] *Profit Sharing Manual, 1957 Edition,* p. 14.

to 2,000 companies in the United States and Canada have fully developed profit-sharing plans which meet its criteria. The number is expected to grow in the next few years "as thousands of companies with narrow and limited profit-sharing plans become eligible for accredited standing with the council by embracing the larger and truer concept of profit sharing for all employees."[5] Council-approved plans must (1) be based on profits, (2) apply to all regular employees, (3) be reduced to writing and communicated to employees, (4) provide for distributions of money, either currently or on a deferred basis, at regular intervals and in established patterns, and (5) provide for payments above and beyond prevailing wages.

Many of the earlier profit-sharing plans applied only to selected groups of employees, usually those in executive positions. The trend now is to include all workers. Up to a decade or two ago the general practice was to make cash payments out of current earnings; in recent years the deferred-payment plan has come into favor, especially among the larger companies. Under such plans a percentage of profits is paid into a trust fund from which the individual employee is entitled to draw in the future; most often the trust funds support what amounts to a pension system. Large companies with deferred-payment, profit-sharing plans include Procter & Gamble, Lever Brothers, Inc., Motorola, Inc., Pacific Finance Corporation, Sears, Roebuck & Co., Solar Aircraft, Union Tank Car, Jewel Tea, Walgreen Drug, and Western Auto Supply.

An estimated 10,000 deferred-payment profit-sharing plans are in effect today. Their greatest growth was during the war. The Internal Revenue Service approved more than 2,000 deferred-payment plans for tax purposes in 1956 and again in 1957. The aggregate value of all profit-sharing funds for disbursement on retirement was estimated at between $3 billion and $4 billion in 1954, when the total value of private pension and retirement funds amounted to $21.5 billion.[6]

Highlights in Long History of Profit Sharing

Profit sharing dates back more than a century, but until recently it had had only limited application in this country.

[5] *Ibid.*, p. 18.

[6] J. J. Jehring, *The Investment and Administration of Profit Sharing Trust Funds* (research study for Profit Sharing Research Foundation, May 1957), p. 1.

The origins, both philosophic and practical, lie in France where the earliest plans were introduced as a form of social reform in the post-Napoleonic period. The first successful long-lived plan was instituted in 1842 by the head of a house painting firm, Edme Jean Leclaire; it lasted until he died 33 years later. Several British employers adopted profit-sharing plans in the latter part of the 19th century, but most of those ventures were of short duration. The first American plan on record was instituted in 1794 in a glass factory owned by Albert Gallatin, Secretary of the Treasury under Jefferson and Madison. Gallatin felt that "The democratic principle upon which this nation was founded should not be restricted to the political processes but should be applied to industrial operations as well."

Profit sharing was not taken up widely in the United States until after the Civil War. Several Massachusetts firms and a New York carriage maker launched share-the-profits schemes in the 1860s, but they failed to weather strikes and economic reverses. Procter & Gamble, on the other hand, initiated a profit-sharing plan in 1887 which is still in existence after 70 years—the oldest continuous arrangement of the kind.

A number of plans were launched, and many terminated, around the turn of the century. Interest grew to such an extent that bills were proposed in the Massachusetts legislature in 1903 and 1904 to require adoption of profit sharing in certain instances. Eastman Kodak began to share profits in 1912, Sears Roebuck in 1916. The number of plans increased during World War I and the early postwar period, but many of the new schemes were limited to executives or provided only for distribution of shares of company stock. The depression took a heavy toll; studies in the early 1930s indicated that fewer than 100 profit-sharing plans were then active in the United States.

Wartime conditions, a decade later, favored introduction of profit-sharing arrangements. Government restrictions on wage and salary increases, the tight labor market, and the excess profits tax encouraged adoption of deferred payment plans, which were sanctioned so long as distribution of benefits did not occur sooner than ten years after profits had been earned. "If the employer adopted a deferred plan, and if he were in the excess profit bracket, he would often find that for every dollar placed in the fund, he had

to spend only 15 cents. The remaining 85 cents would otherwise have gone in taxes."[7]

After the war, profit sharing appealed to some companies as a means of easing reconversion difficulties. Sen. William F. Knowland (R-Calif.) and former Rep. Clare Boothe Luce (R-Conn.) in 1946 introduced resolutions to authorize committee studies of profit sharing. The Knowland resolution declared that "Extending the direct benefits of the profit system to the largest number of citizens is highly desirable and important." Mrs. Luce told the House on Jan. 14, 1946, that a study was necessary to help a future Congress develop legislation "by which there could be created a wider diffusion of ownership through contracts of partnership in industry between employer and employee in times of peace."

New plans continued to come into existence in the postwar period, while some of the wartime plans were dropped or altered. In numerous cases the profit-sharing arrangement was supplanted by wage increases, straight pension systems, or benefits of other types.

Methods of Distributing Profits to Workers

Profit-sharing plans show wide variation in the percentage of profits paid to workers and in the methods of computing profits for that purpose. Under most of the plans, profits are split only after a certain percentage has been set aside for capital investment. Some plans provide that a portion of profits be allocated for dividends to stockholders before the remainder is divided; in a typical small company, for example, employees share in profits after stockholders have received a base payment of $6 a share. Some plans divide profits before taxes, others after taxes. Some provide merely that all money left after meeting operating costs shall be divided at the end of the year. Others have complicated formulas for computing each employee's share.

The plan adopted in 1935 by the Nunn-Bush shoe manufacturing company has attracted unusual attention. It provided originally that workers should receive 20 per cent of the wholesale value of the shoes produced. In 1948 the workers' share was established at 36 per cent of the value added to raw material by manufacture. Funds amounting

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[7] Edwin B. Flippo, *Profit Sharing in American Business* (1955), p. 9.

to this share are deposited monthly in a group fund, and each employee is given a yearly drawing rate based on his contribution. Employees may draw on the fund weekly but must leave a certain percentage of their share in the fund as an interest-earning reserve.

An Ohio State University study of several hundred profit-sharing plans showed that the share of profits most frequently distributed to employees ranged from 16 to 25 per cent. Plans paying benefits currently tended to be more generous to employees than deferred plans; nearly one-third of the companies in the former group distributed more than one-fourth of their profits to workers, while fewer than 15 per cent of the companies paying on a deferred basis shared as large a proportion of their profits.[8] The study showed also that profit shares received by employees in most of the companies increased total compensation by amounts ranging from 3 to 15 per cent of wages; in some cases the addition equaled as much as 50 per cent of wages. Deferred pay plans, on the other hand, rarely added sums equal to more than 15 per cent of wages because that is the maximum of employer contributions to a trust fund that can be deducted for tax purposes.

Eastman Kodak's current profit-sharing plan paid out $38.2 million to 50,000 employees in 1957. Pitney-Bowes, Inc., makers of postage-meter machines, gave nearly $3 million to 3,900 employees out of 1956 profits. Some of the largest profit distributions, proportionately, go to workers in relatively small companies. Among employers recounting profit-sharing success stories at a 1956 meeting of the Council of Profit Sharing Industries were a marine propeller manufacturer whose employees, including some foundry laborers, averaged close to $8,000 a year from wages plus profit shares; a Cleveland manufacturer whose workers' profit return rose within half a dozen years from 5 to nearly 50 per cent of wages; and a Cambridge, Mass., employer of 250 workers whose profit shares increased in a few years from zero to 18 per cent of wages.

Alleged Business Gains from Profit Sharing

The 1957 *Profit Sharing Manual* summed up the advantages of profit sharing to employers as "good business, good psychology." Among beneficial results cited are greater efficiency, less waste, improved maintenance of machinery,

[8] *Ibid.*, p. 39.

better morale, more amicable employer-employee relations, and lower rates of turnover. The more fervent advocates of profit sharing praise it as an expression of the democratic spirit in business, a refutation of left-wing propaganda presenting capitalism as an exploiter of labor.

Employers discussing profit-sharing plans tend to stress the intangible benefits. Much is made of the average worker's need to be recognized as a human being and not considered merely "an element of production to be bargained with at the best possible price." A Senate Finance subcommittee which studied profit sharing before the war said in 1939: "We believe [profit sharing] to be essential to the ultimate maintenance of the capitalistic system. We have found veritable industrial islands of 'peace, equity, efficiency and contentment,' and likewise prosperity, dotting an otherwise and relatively turbulent industrial map all the way across the continent." The *Profit Sharing Manual* called profit sharing "the 20th century concept of doing business" and added: "It recognizes and accepts the indispensable place the employee occupies as a partner of the company. . . . It is based on the premise that the goals of management and labor are the same. If one prospers, the other must prosper too."

Employers at the ninth annual conference of the Profit Sharing Council gave numerous examples of specific gains from profit sharing. The president of a foundry said that in six years of profit sharing his company had gained 18 per cent in output per man-hour, reduced loss from defective products 47 per cent, and increased average company earnings 73 per cent; labor costs were cut from 42 to 31 per cent of the sales dollar. The objectives of the company, when it instituted the plan, were said to be "improved quality of product, improved teamwork between departments and between employees and management" and employee advancement through cooperation with management to "promote the welfare of the business." [9]

A Cleveland employer told the group: "It is one of the greatest forces that we have today in our society for building good qualities into the individual, to make for our economic security, and to preserve the capitalistic system." Employers were warned, however, that a profit-sharing plan would not work unless motivated by a genuine desire

[9] Council of Profit Sharing Industries, *Every Man a Capitalist* (1957), p. 8.

to share profits with workers. Profit sharing as a substitute for fair wages or as a "gimmick" for tax saving was said to be doomed to failure, because the system pays off only when employees are convinced that they are in actual partnership with the employer. It is generally agreed that unless the share of profits distributed to workers adds at least 10 per cent to their wages, or unless the company anticipates a rise in earnings, the profit-sharing plan is not likely to accomplish its purposes.

The vast majority of companies now practicing profit sharing are relatively small. The general opinion is that the plans which pay cash currently are best suited to concerns with no more than a few hundred employees, a large percentage of whom are highly skilled workers.

Profit Sharing and the Labor Unions

ENTHUSIASTIC SUPPORT of profit sharing by a few thousand individual employers has not in any sense paved the way for its ready acceptance by big industry as a matter for collective bargaining. Until the U.A.W. took it up, profit sharing had been commonly regarded as something of an oddity appropriate for certain small or "special case" companies. It had never been suggested that this form of worker remuneration might be imposed on a major industry through the economic power of a strong national union.

For one thing, labor leaders, from Samuel Gompers on, had traditionally opposed profit sharing for the reason that most of the plans were controlled exclusively by employers. Even companies which attempted to create an atmosphere of partnership with employees by making financial or "progress" reports to them, or by holding joint meetings to discuss company affairs, still retained full power to determine what share of profits workers should receive. The whole setup smacked too much of the hated "company unions" of the pre-Wagner Act era to appeal to old-line labor leaders.

A certain number of profit-sharing plans have been incorporated into collective bargaining agreements in recent

years, but the unions involved are scattered locals without national affiliation. The Ohio State University sampling of profit-sharing firms found very few which provided for joint labor-management boards or committees to share administration of the plans or even to discuss shop problems, while permission for inspection of company books by employee representatives was rarely granted.[10] A study by the Profit Sharing Research Foundation likewise found that deferred payment trust fund arrangements were not often tied in with union contracts. Although one-third of the 200 plants surveyed had unions, the unions were represented in trust fund management in only 6 per cent of the plants; in most cases participation consisted only of having union members on advisory committees.[11]

Testimony before the Senate Finance subcommittee in 1938 reflected union suspicion of the profit-sharing plans of that day. John L. Lewis, then president of the C.I.O., told the investigators that "Labor's disillusioned experience in regard to profit-sharing plans has been that they have been used as a device to avoid the payment of an immediate decent wage and made labor dependent upon haphazard industrial and financial policies of management." William Green, then president of the A.F.L., testified that labor was not so much opposed to sharing profits as "to the way in which it [profit sharing] has . . . operated."

A U.A.W. periodical, *Ammunition*, published an article in April 1949 entitled "What's Wrong With Profit-Sharing Plans?" which covered many familiar labor complaints. Instability of earnings based in part on profits was described as "poison for workers." Two years ago, the U.A.W. turned down Ford and General Motors offers of a stock purchase plan under which plant workers could have shared in profits as stockholders.

The incentive factor associated with many profit-sharing plans, under which remuneration is tied to efficiency gains, is particularly unpalatable to labor leaders. This is a form of pressure on workers which unions have been on guard against since the days of the sweatshops.[12] Reuther assured

[10] Edwin B. Flippo, *op. cit.*, p. 63.

[11] J. J. Jehring, *op. cit.*, p. 94.

[12] Samuel Gompers described profit sharing half a century ago as a "single-handed scheme" by which "the average employer . . . has gotten out of the workers all there was in them, and all their vitality, and made them old prematurely to the tune of five or ten years of their lives."—*Report of the Industrial Commission on the Relations and Conditions of Capital and Labor Employed in Manufactures and General Business* (1901), p. 644.

members of his union, at the special U.A.W. convention in January, that the plan he proposed would not result in production line speed-ups.

The extent to which labor's opposition to profit sharing has been taken as a matter of course is reflected in manuals for businessmen. One of them states: "Labor must be sold a profit-sharing program with just as much zeal and enthusiasm as a firm's product . . . is sold. Labor cannot be expected to accept immediately or without question a plan which is fraught with potential difficulties." [13] The *Profit Sharing Manual* asserts that the plans give the rank-and-file worker a sense of importance which he otherwise gets only from his membership in a union, thereby possibly suggesting that one might be a substitute for the other.

Asked by newsmen for his opinion of the Reuther proposal, A.F.L.-C.I.O. President George Meany said on Feb. 3 that he had always been suspicious of profit-sharing plans when proposed by employers, but perhaps a big union like the U.A.W. could work out a scheme for sharing profits that he might consider acceptable.

Industry View of U.A.W. Plan as Bid for Power

The battle lines on profit sharing are reversed in the U.A.W. case, because both sides recognize a fundamental difference between the current proposal and the plans lauded by business in the past. The difference lies largely in the question of who is to control the profit-sharing plan, which in turn determines the primary objective of the plan. Business enterprises introduce profit sharing chiefly to spur workers to waste less and produce more; a union advocates profit sharing as a means of diverting a larger part of company earnings into the worker's pay envelope.

Theodore O. Yntema, a vice president of the Ford Motor Co., touched on this point in his testimony before the Kefauver subcommittee on Feb. 4:

> These [traditional profit-sharing] plans are designed to attract employees of superior talents and to give them incentives to make their greatest contribution to the business. These plans are designed to increase efficiency, productivity and profits. When profit-sharing plans achieve these goals, they serve the stockholders and the country well, and we are in favor of them.
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> But Mr. Reuther's proposal is quite different. He does not

[13] Karl G. Rahdert, *What You Should Know About Profit Sharing* (Bulletin of Bureau of Business Research, Indiana University, May 30, 1949), p. 6.

propose that employees be given incentives to make additional efforts and contributions to the business, to the end that profits going to stockholders may be increased. Having first claimed through his basic demands more than his full share of the productivity pie, he seeks through his profit-sharing plan to appropriate a portion of the share belonging to those who risk their capital in the business.

Automobile producers consider that the union plan represents a dangerous labor attempt to invade the management field by getting a voice in formulation of company policy. All union advances have to some degree chipped away at management's unilateral control over such matters as wages, work schedules, holiday arrangements, and so on. But the U.A.W. profit-sharing plan would bring union influence into a central area of company management—the determination of how to make use of profits.

Ernest R. Breech, Ford chairman of the board, said late in January that the U.A.W. proposal would "invite increasing demands for union veto power over day-to-day management decisions." Such matters as "budgets for advertising, research and engineering, new model tooling, capital expansion plans, make-or-buy decisions—all would be viewed by the union as affecting profits." Motor vehicle manufacturers are particularly outraged over the union's linking of its collective bargaining demands with a demand for readjustment of automobile prices. The consumer-rebate feature of the plan, like Reuther's recommendation last August that automobile producers knock $100 off the prices of new models, is regarded as a crafty scheme to win public support for the union's demands.

Nation's Business, published by the U.S. Chamber of Commerce, declared that the profit-sharing proposal constituted "a new threat to the free enterprise economy and to management's duty to manage responsibly." If granted, the union's demands "could lead to union control of prices, profits and production and in effect also make unions the bargaining agent for stockholders, customers, and salaried personnel as well as for union members." [14]

Profit Sharing and Consumer Purchasing Power

The automobile union's profit-sharing demand has opened a new chapter in the development of union wage policy. In the earliest days of trade unionism, labor sought a

[14] "Profits Face New Labor Attacks," *Nation's Business*, February 1958, p. 70.

"living wage" without much regard for its relationship to profits. The American Federation of Labor convention in 1925 heralded a "new wage policy" based on the theory that wages should rise "in proportion to increased productivity." This was one of the first formal union statements of the contention that labor should fight for a larger share of the wealth it created in order to sustain consumer purchasing power and thus strengthen the national economy. The theory made little practical headway until passage of the Wagner Act a decade later helped to boost the membership and prestige of labor unions.

With Walter Reuther the theory that the health of the national economy rests on maintenance of high consumer purchasing power has become a crusade. Whenever his union's contracts come up for renegotiation, he presses this view against the automobile industry's conviction that the key to prosperity lies in expanding the investment of private capital in productive enterprise. Invariably the industry insists that an increase in worker pay, without an increase in output per man-hour, simply forces up prices and hence gives the worker no net benefit.

Much of the current debate over the U.A.W. profit-sharing plan follows these familiar paths. The profit-sharing plan is merely a new means of attaining a long-established U.A.W. objective, which is to funnel more money from the automobile industry into the pockets of the workers. Holding down the price of the product is regarded as being of as much importance in making progress toward the final objective as an increase in cash earnings.

Half a dozen years ago, Reuther explained his union's "dynamic wage policy" as one directed toward "increased purchasing power . . . rather than just toward increases in money wages." Another key point was that "the wage-price-profit relationship is out of balance and must be corrected by increasing real wages and the workers' share of the total wealth created by our economy." [15]

The heart of Reuther's testimony before the Kefauver subcommittee on Jan. 28, a fortnight after his profit-sharing proposal was announced, was an attack on the price-wage-profit policies of big industry and the "Big Three" of automobile production in particular. Reuther said his union

[15] Walter P. Reuther, "Practical Aims and Purposes of American Labor," *Annals of the American Academy of Political and Social Science*, March 1951, p. 65.

since the end of the war had consistently based its demands on an evaluation of the financial position of the companies. The four-month General Motors strike of 1945-46 followed a union demand for wage increases without price increases. Today Reuther still contends that prices of cars need not be raised to meet the pay increases he is seeking for automobile workers.

The automobile industry is equally adamant in insisting that its profits are not out of line, and that any labor tampering with the ways in which profits are used would be economically disastrous. Benjamin F. Fairless, president of the American Iron and Steel Institute, said of the U.A.W. proposal on Jan. 30 that "A squeeze like that on profits . . . would stop investment cold, lower productivity and increase unemployment."

There is suspicion in industry circles that the U.A.W. profit-sharing proposal is more of a pre-bargaining maneuver than an expression of genuine interest in relating worker earnings to company profits. The union's main objective, according to this view, is to invite public scrutiny of automobile company profits, to win public sympathy for wage hikes by publicizing the large bonuses awarded company executives, and to arm labor with an additional bargaining weapon in the forthcoming negotiations.